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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 003560

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NSC FOR SENIOR DIRECTOR FOR WH AFFAIRS FISK
ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD

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TAGS: [EPET](#) [EINV](#) [BH](#) [VE](#)

SUBJECT: PETROCARIBE RECAP

REF: A. CARACAS 2027

[B](#). GEORGETOWN 00686

[C](#). BELIZE 00952

[D](#). CARACAS 03260

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#). (C) SUMMARY: The GOV has begun negotiations with Haiti over its accession to Petrocaribe. If Haiti joins Petrocaribe, it will receive better financing terms than it currently receives under the Caracas Energy Accord, which it signed in 2000. International oil companies operating in Venezuela have expressed concern over Petrocaribe but have not seen any adverse impact on their Venezuelan operations. Shipping problems could produce serious problems for Petrocaribe partners and the private sector companies that own infrastructure in the Caribbean. This cable provides a review of these issues and the state-of-play of Petrocaribe. SUMMARY

BRIEF OVERVIEW OF PETROCARIBE

[2](#). (U) Fourteen countries (Antigua & Barbuda, Bahamas, Belize, Cuba, Dominica, Grenada, Guyana, Jamaica, the Dominican Republic, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Surinam, and Venezuela) are currently signatories of the Petrocaribe Energy Cooperation Agreement. As reported in Reftel A & B, state entities importing oil under Petrocaribe will have a two year grace period and a 17 year timetable for repayment at a two percent interest rate when the price of oil is below 40 USD per barrel. When the price of oil is above 40 USD per barrel the payment period is 25 years and the interest rate drops to one percent.

[3](#). (U) The amount of oil that may be financed depends on the price per barrel of oil ranging from five percent when the price is 15 USD to 50 percent when the price is 100 USD or above. Buyers have 90 days to pay for oil that is not subject to financing. PDVSA has stated it will accept partial payment in goods and services. Among the items that it has mentioned it may be willing to accept are sugar, bananas, and "other goods and services affected by the trade policies of wealthy countries".

[4](#). (C) It is our understanding that the 15,000 barrel shipment to Belize in Reftel C was the first shipment under Petrocaribe. Shipments to eastern Caribbean islands are scheduled to depart this month. Total consumption for Petrocaribe members is slightly above 198,000 barrels per day with Cuba accounting for approximately 98,000 barrels. In a meeting with a visiting GAO delegation reported in Reftel D, Energy Minister Ramirez stated Venezuela will supply eastern Caribbean countries with 10,000 barrels per day. He added that Venezuela will supply Cuba, Jamaica, and the Dominican Republic with 180,000 barrels per day under Petrocaribe. A private sector analyst in Caracas has estimated that Jamaica's fuel consumption is 21,000 barrels per day and the Dominican Republic's is 50,000 barrels per day. (NOTE: It should be noted that Venezuela has been shipping Cuba oil at preferential rates outside of the Petrocaribe framework for sometime. We believe those shipments to be currently around 90,000 barrels per day. END NOTE)

[5](#). (U) As noted in Reftels A & B, Venezuela will provide shipping and infrastructure to the rest of the participants in Petrocaribe. PDVSA and the Cuban Ministry of Transportation recently signed an agreement that lays the basis for the creation of a joint venture company that will handle the shipment of oil and refined products under Petrocaribe. The agreement appears to be light on details. PDVSA has publicly stated an additional agreement will be necessary for the formation of the joint venture but has not given a time frame for its signature.

[6](#). (U) According to a PDVSA press release in July 2005, PDVSA will utilize its existing BORCO storage facility with a capacity of 15 million barrels in the Bahamas for Petrocaribe. PDVSA plans on building a storage and distribution facility in Dominica with a capacity of 25,000 barrels. PDVSA and Cuba will also build up storage capacity at the Matanzas terminal in Cuba from its current level of two million barrels to 3.6 million barrels. Finally, PDVSA

and Cuba will also build a 600,000 barrel storage facility at the Cienfuegos refinery in Cuba. PDVSA described both the Matanzas and Cienfuegos projects as "long-term" in nature. All of the operations listed above will be coordinated by PDV Caribe, a PDVSA affiliate that is headquartered in Cuba.

HAITI

17. (U) A PDVSA delegation headed by Vice President for Refining and PDV Caribe Alejandro Granado visited Haiti at the end of October to discuss the inclusion of Haiti in Petrocaribe. The visit stemmed from an announcement by President Chavez on his weekly television program that Haiti would be joining Petrocaribe. According to PDVSA, Haiti had an internal demand of 11,000 barrels per day in 2001. Haiti will be offered the same pricing and financing terms as the rest of the Petrocaribe members. Haiti signed the Caracas Energy Accord in 2000. Under that agreement, Venezuela agreed to supply Haiti with 6,000 barrels of oil per day. Haiti has a 15 year timetable for repayment with a one year grace period and an interest rate of two percent. The amount of oil that can currently be financed is 25 percent based on a 30 USD price per barrel. The amount that can be financed will fall if the price per barrel falls.

REACTION FROM OIL COMPANIES OPERATING IN VENEZUELA

18. (C) In a meeting on November 23, Carlos Rodriguez, ExxonMobil's Government Relations Manager in Venezuela, told us that his company is very concerned about Petrocaribe in light of the recent shipment to Belize (See Reftel C). He complained that PDVSA is basically shipping the oil without paying any attention to shipping schedules or the specifications of the cargo. When asked if ExxonMobil had faced any repercussions due the objections it raised to receiving the Belize shipment, Rodriguez answered in the negative.

19. (C) A senior executive with Sargent Marine (strictly protect), a U.S. shipping company that specializes in asphalt, told us that he does not believe that Petrocaribe will have much of an impact in the short term for the private sector since most of the infrastructure in the Caribbean belongs to the private sector. However, he expected competition to increase in the medium to long term as PDVSA begins building infrastructure for the state entities that participate in Petrocaribe. Shell recently signed a one year contract with Sargent to supply the Caribbean and the contract contains language for a one year extension.

SHIPPING COULD BE A MAJOR PROBLEM

110. (C) PDVSA's decline in operating efficiency may have a significant impact on its ability to supply its Petrocaribe partners. According to the Sargent Marine executive, Venezuelan shipping terminals have become a "nightmare" for shippers, particularly Amuay. He complained that one of his ships recently had to wait four days for loading.

111. (C) The executive also noted a recent tanker accident in the Maracaibo shipping channel resulted in significant delays for tankers. The fuel oil spill that resulted from the accident was not serious. However, due to a four day delay by authorities in coming up with contingency plan and mistakes in the cleanup, the spill resulted in loading delays. The delay in loading cargoes eventually produced serious production problems as storage space ran out. PDVSA ordered one tanker to load at night despite the fact that there was still a significant amount of fuel oil remaining from the spill. PDVSA did not warn the captain of the tanker about the spill and he awoke the next morning to find his tanker anchored in the middle of an oil spill. PDVSA diverted oil to Amuay and the refining complex in Cardon but the shift played havoc with production and loading schedules. The executive said a each one day delay created a loss of 42,000 USD per vessel. According to the executive, PDVSA hired ex-employees to deal with the spill when its own efforts failed.

COMMENT

112. (C) Given the poor state of Venezuelan shipping terminals, Venezuela's Petrocaribe partners may find themselves waiting for significant periods of time for their promised shipments. The problems ExxonMobil faced in Belize as outlined in Reftel C could be the beginning of a long line of shipping and specification headaches for the private sector companies that own shipping, storage, and distribution networks in the Caribbean as they adapt to life with Petrocaribe.

13. (C) Petrocaribe, in addition to the recent moves on the part of the GOV to supply fuel oil to lower income families in the U.S., gives the GOV an excellent opportunity to come across as kind and compassionate while at the same time offering the chance to tar international oil companies (IOCs) as price gougers preying on the poor. The initiative also offers the GOV an opportunity to advance its trade and regional integration agendas as well as gain positive press and hoped for support in regional fora. Energy Minister Ramirez has stated publicly that Petrocaribe is based on the Bolivarian Alternative for the Americas (ALBA), the Chavez administration's answer to the Free Trade Agreement for the Americas. In addition, during his meeting with the GAO team (Reftel D), Ramirez painted Petrocaribe as the GOV's recognition of its "moral responsibility" to rescue Caribbean from bankruptcy due to high oil prices, which were exacerbated by intermediaries that added 8 USD per barrel. We fully expect the GOV to continue with this type of rhetoric and to blame IOCs for any distribution problems to Petrocaribe partners.

Whitaker